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Emerging issues: youth: poverty and unemployment

Note by the Secretariat

I. Introduction

1. Young people between 15 and 24 years of age are disproportionately affected by unemployment and overrepresented in the informal sector and among the working poor. Since early experiences in the labour market shape their future employment opportunities and wages, such deficits in decent work, both in terms of the quantity and quality of jobs available to youth, can have long-lasting consequences and affect the well-being of young people now and in the future.

2. The present note was prepared by the Secretariat to provide background information on the theme of poverty and unemployment among youth. It covers trends in youth unemployment and the implications of such unemployment for poverty among young people. It also contains some policy considerations for addressing the issues of deficits in decent work and the reduction of poverty among young people.

II. From financial crisis to youth unemployment crisis

3. Youth employment has been a persistent global challenge over past decades. That challenge has been significantly aggravated by the ongoing financial and economic crises, particularly in the developed world. Youth employment challenges differ considerably in developed and developing countries. In the developed world, the challenge requires providing job opportunities for young people entering the labour market. In developing countries, where young people are often underemployed and working in the informal sector under poor conditions, the

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challenge requires not only generating additional employment opportunities for young people, but also improving the quality and productivity of the employment options available to them.

4. As a consequence of the current financial crisis, the global youth unemployment rate rose from 11.8 to 12.7 per cent between 2008 and 2009, representing a total of 75.8 million unemployed youth at the height of the crisis and marking the largest annual increase in youth unemployment over the 20 years that global estimates have been available.[1] At the end of 2010, the global unemployment rate among young people stood at 12 6 per cent.

5. The rates of unemployment among youth are significantly higher than those among adults in all regions of the world, albeit with significant variations. In 2010, the global youth unemployment rate was almost three times as high as the adult unemployment rate (4.8 per cent).[2] In Africa, the unemployment rate among youth was twice that of the adult population, while it was almost five times higher than that of adults in South Asia and the Pacific. In that year youth unemployment rates were highest in the Middle East (25.2 per cent) and North Africa (23.8 per cent); they reached, on average, 19.4 per cent in Eastern Europe and the Commonwealth of Independent States, and 17.9 per cent in developed countries.

6. Socially disadvantaged youth are particularly affected by unemployment, which perpetuates a vicious cycle of poverty and social exclusion. Young women, for instance, have more difficulty securing decent work than young men. When they do find a job, it is often in the informal economy and their pay is lower than that of men.[3] This general disadvantage notwithstanding, in developed countries young males were more adversely affected than young women during the crisis period. Indigenous peoples and ethnic minorities suffer from higher unemployment rates and are overrepresented among the poor.[4]

7. High unemployment among youth stems partly from the fact that growth in youth employment has not been sufficient to absorb the increasing cohorts of young workers. Even during the period of economic expansion that preceded the current economic crisis, global youth unemployment remained at a high level, rising from 70 million in 1997 to 71 million in 2007. The crisis has exacerbated the situation. The impact of the crisis on youth unemployment has been starker in developed countries, which account for 10 per cent of the global youth labour force and 72 per cent of the total increase in youth unemployment from 2007 to 2010. Youth unemployment in the European Union rose from 15.8 per cent in 2008 to 21.0 per cent in the period 2010-2011 and recently reached record-high levels in several European countries, including the Baltic States, Greece, Portugal and Spain, where the proportion of unemployed youth stood at 45 per cent in the second quarter

[1] International Labour Office, *Global Employment Trends for Youth: Special Issue on the Impact of the Global Economic Crisis on Youth* (Geneva, 2010).

[2] Ibid., *Global Employment Trends 2011: The Challenge of a Jobs Recovery* (Geneva, 2011), and United Nations, World Population Prospects: The 2010 Revision. Available from http://esa.un.org/unpd/wpp/index.htm (accessed 18 November 2011).

[3] International Labour Office, *Women in Labour Markets: Measuring Progress and Identifying Challenges* (Geneva, 2010).

[4] Ibid., *Global Employment Trends for Youth: Special Issue on the Impact of the Global Economic Crisis on Youth* (Geneva, 2010); and World Bank, *Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs* (Washington, D.C., 2011).

of 2011.[5] In many developed countries, rising long-term unemployment stands in contrast to the global recovery of real gross domestic product (GDP) and other key macroeconomic indicators since 2010 and continues to raise fears of a jobless recovery.

8. In addition, many countries have witnessed a surge in the number of discouraged young workers who are not counted among the unemployed because they are not actively seeking employment. Thus the crisis has reinforced the long-term downward trend in youth participation rates in many countries. The rise in unemployment during the crisis would have been stronger had young workers not dropped out of the labour market. While some of them may have returned to the education system, the number of youth who are neither in the labour market nor in education has increased. In countries of the Organization for Economic Cooperation and Development (OECD) alone, 22.3 million young people (12.6 per cent of all youth) were neither working nor in education or training during the fourth quarter of 2010.[6] The estimated percentage (20 per cent) was even higher in Latin America in 2008.[7] This situation represents a severe waste of human potential and can have drastic repercussions both for the young people affected, in terms of marginalization and exclusion, and for societies at large.

9. However, unemployment and inactivity are not sufficient to depict the deficit in decent work suffered by youth in the labour market. In countries with high levels of poverty and inadequate social protection systems, the majority of workers cannot afford to stay unemployed. In developing countries, which are home to 87 per cent of the world's youth, the majority of young people have to work, but struggle to earn income through own-account work or engage in activities in the informal sector, where salaries are lower than in the formal sector, social protection is largely absent and working conditions are poorer. Evidence from national household surveys indicates that in those countries many more young people than adults are engaged in family businesses, which are likely to be informal enterprises characterized by low productivity and low, if any, pay, as well as by a lack of social and legal protection.[8] As a result of the economic recession, laid-off workers from the formal sector have turned to the informal economy, where wages have declined even further owing to the increased competition for informal jobs and the decrease in aggregate demand, further raising the level of working poverty in many countries.

10. In developed countries, the jobs found by youth in the formal sector are often less than ideal. In 2007, 41 per cent of youth in the European Union were employed under temporary contracts, compared with 11 per cent of adults.[9] Part-time

[5] European Commission, Eurostat Unemployment Statistics. Available from http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics (accessed 21 November 2011).

[6] Organization for Economic Cooperation and Development, *OECD Employment Outlook 2011: Unfinished Business: Investing in Youth* (Paris, 2011).

[7] International Labour Organization, *Trabajo Decente y Juventud en América Latina, 2010* (Lima, 2010)/Proyecto Promoción del Empleo Juvenil en América Latina, figure 12.

[8] In countries such as Benin, Cambodia, Mali, Mozambique and Togo, more than 50 per cent of all young workers were in family businesses in 2005 (see International Labour Office, *Global Employment Trends for Youth. Special Issue on the Impact of the Global Economic Crisis on Youth* (Geneva, 2010), figure 8.

[9] European Commission, Eurostat, European Union Labour Force Survey. Available from http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/introduction.

employment rates are high and have increased significantly since 2007, that is, by over 10 percentage points in Iceland, Ireland, Luxembourg, Slovenia and Spain.[10] Part-time employment is not in itself a deficit in decent work since some young people opt for such a contractual arrangement in order to combine work and education; however, its increase in times of crisis suggests that part-time employment is the only option available for many young men and women who are de facto underemployed.

11. Overall, the economic crisis is worsening the youth unemployment crisis. The move by a growing number of countries towards fiscal austerity and the ensuing reduction in social spending, job cuts and calls for greater labour market flexibility, at a time when youth and other vulnerable groups of workers have the greatest need for support and security, will contribute to greater labour market volatility, joblessness and working poverty. A historical analysis of fiscal consolidation programmes shows that cutting the budget deficit by 1 per cent of GDP typically reduces demand by 1 per cent, reduces GDP by about 0.5 per cent within two years and raises the unemployment rate by three tenths of a percentage point.[11] Such cuts bring about long-term declines in wage income, while declines in profit are relatively smaller and more short-lived.[12]

12. Moreover, experience from past recessions shows that employment recovery lags far behind resumed economic growth. In the 1990s, among countries able to restore pre-crisis lows in youth unemployment, it took on average 11 years to do so.[13] Among countries not able to restore pre-crisis low levels of youth unemployment, it took on average 17 years to reach new, albeit higher, troughs in youth unemployment. When displaced workers found jobs during the recovery, their post-recession wages tended to be much lower than they had been previously. Therefore, the youth employment challenge will remain, even in the absence of a so-called double-dip recession.

III. Poverty among youth

13. In recent decades, the world has made significant strides in reducing income poverty. Large reductions in poverty have been recorded in East Asia, particularly in China, while other countries and regions, including sub-Saharan Africa, have been less successful. Although internationally comparable poverty estimates are not available by age, labour market indicators suggest that a significant proportion of youth live in poverty.

[10] International Labour Office, *Global Employment Trends for Youth: 2011 Update* (Geneva, 2011).

[11] International Monetary Fund, *World Economic Outlook: Recovery, Risk and Rebalancing* (Washington, D.C., 2010).

[12] Prakash Loungani, "Will it hurt? Who will it hurt? The macroeconomic and distributional effects of fiscal austerity", paper prepared for the United Nations Expert Group Meeting on the Challenge of Building Employment for a Sustainable Recovery, International Labour Organization, Geneva, 24-25 June 2011.

[13] International Institute for Labour Studies, *World of Work Report 2010: From One Crisis to the Next?* (Geneva, International Labour Organization, 2010), box 1.1.

A. Working poverty

14. According to estimates prepared by the International Labour Organization (ILO), in 2009 one out of every five workers in the world lived with their families on less than $1.25 per day. Young workers are disproportionately susceptible to poverty: working poverty rates for youth exceeded the corresponding adult rates in 51 out of 52 developing countries for which data were available.[14] In Congo and Guinea, the working poverty rate among youth exceeded the adult rate by over 10 percentage points in 2005 and, in an additional 15 countries, youth working poverty exceeded the adult rate by more than 5 percentage points. The deteriorating labour market conditions may have intensified youth poverty. Evidence for European Union countries suggests that young people in that region face a much higher risk of poverty than adults.[15]

15. These findings provided clear evidence that youth were disadvantaged not only in terms of job placement or wages, but also in finding productive work that provided sufficient income for them to escape poverty. High labour force participation rates, even among the poor, indicate that many young people are not in the labour market out of personal choice but because they must help support their families. Those high rates also reflect lost opportunities for youth who might otherwise have attended school and acquired skills that would have raised their future productivity and earnings. Many of the young working poor, the majority of whom are in the agricultural sector, lack even primary-level education.[16]

B. Consequences of poverty and lack of decent work among youth

16. For every young person a decent job is an important step towards completing the transition to adulthood and a milestone towards achieving independence and self-reliance. For youth living in poverty and in other disadvantaged situations, employment is often the only means to a better life. For more fortunate youth, employment prospects influence education and training choices and increasingly their decisions regarding spatial mobility, marriage and kinship.

17. As early labour market experiences tend to be strong predictors of future earning potential, the trend towards increasing youth unemployment, discouragement and the significant deficits in decent work experienced by youth has long-term effects on their well-being. Unemployment and underemployment undermine young people's development of skills and lower their motivation, adversely affect their physical and mental well-being and can lead to their marginalization and exclusion. ILO has warned of a crisis, the legacy of a "lost generation" comprising young people who have lost all hope of being able to work for a decent living.

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[14] International Labour Organization, *Key Indicators of the Labour Market*, 7th ed. (Geneva, 2011). Available from http://kilm.ilo.org (accessed 21 November 2011).

[15] Byung-jin Ha, Caroline McInerney, Steven Tobin and Raymond Torres, *Youth Employment in Crisis*, Discussion paper of the International Institute for Labour Studies, DP/201/2010 (Geneva, ILO, 2010).

[16] In Colombia, for instance, 60 per cent of the young working poor had not completed primary education in 2003, as opposed to 20 per cent of the youth living above the poverty line. See International Labour Office, *Global Employment Trends for Youth. Special Issue on the Impact of the Global Economic Crisis on Youth* (Geneva, 2010).

18. Youth unemployment, underemployment and vulnerable employment also are highly costly to society in terms of lost human and productive potential, increased welfare payments and decreased fiscal revenues. They also undermine trust in the political and economic system, threatening social cohesion and stability: the mobilization of youth in support of recent political movements in North Africa and the Middle East can certainly be explained, at least in part, by the frustration of a generation of youth that had the opportunity to obtain an education but did not have the same opportunity to gain decent employment. As more young people remain unemployed or underemployed and in poverty as a result of the crisis, the hope of seeing a youth-driven push towards development in low-income countries remains stalled. The longer the distress in labour markets persists, the more the affected workers, their families and their communities run the risk of being trapped in long-lasting poverty.

19. Poverty among youth is often passed from one cohort to the next, as young parents who are poor cannot afford to invest in the health and education of their children. The deprivations suffered at birth and throughout childhood often lead to poverty in adulthood as well, leading to a vicious circle of intergenerational poverty.

IV. Youth employment and the fight against poverty: a policy imperative

20. Employment is an essential means out of poverty, if it provides adequate remuneration and access to social protection, guarantees rights in the workplace and furnishes opportunities for social dialogue. Policies aimed at addressing the structural causes of the lack of employment opportunities for young people have usually focused on increasing their employability by improving their access to, and the quality of, formal education, the availability of apprenticeships and other vocational programmes and by reducing the mismatch between the skills acquired and those needed in the labour market. During the crisis, the implementation of job-search assistance programmes and temporary extensions of social safety nets also proved vital in preventing poverty among unemployed youth. Some countries have also implemented self-employment measures, supplying business start-up credit and microfinance, as well as entrepreneurship training.

21. These policy measures have proved to be more effective when implemented in combination, particularly as part of an integrated policy framework to promote economic and employment recovery and when implemented during the early stages of joblessness. However, a failing of such measures is that they are often not targeted at the more disadvantaged, including youth suffering from poverty, particularly in rural areas, as well as the long-term unemployed and those at risk of exclusion.[17]

22. While training and intermediation services are important components of youth employment strategies, they have proven largely insufficient to produce the number

[17] Organization for Economic Cooperation and Development, *OECD Employment Outlook 2011: Unfinished Business: Investing in Youth* (Geneva, 2011); International Labour Organization, *Policy Options to Support Young Workers during Economic Recovery*, Global Jobs Pact Policy Brief 14. Available from www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_146811.pdf; and Gordon Betcherman and others, *Global Inventory of Interventions to Support Young Workers: Synthesis Report* (Washington, D.C., World Bank, 2007).

of jobs needed and improve their quality. The dominant explanation for persistent high unemployment, particularly among youth, has been that excessively protective labour market institutions, namely unemployment entitlements, employment protection laws and minimum wage regulations, among others, provide a disincentive to job creation. Therefore, calls have increased for reducing employment protection across the board, particularly in times of crisis. However, the empirical evidence available offers little support for such an explanation. Over the years, cross-country studies have consistently found little aggregate correlation between unemployment levels and labour market regulation in developed countries.[18] In a number of developing countries, well-designed minimum wage policies have helped reduce poverty, and greater job security has resulted in increased investments in human capital.[18,19] In addition, countries with different labour market institutions and diverse levels of regulation suffer from similar levels of unemployment, suggesting that there is no optimum set of regulatory regimes applicable to all labour markets.

23. In general, greater labour market flexibility has resulted in greater insecurity for workers as well as increased inequality in wages and working conditions, as some jobs have remained highly protected while others have been made highly flexible. In many countries, labour market regulation has established a stark distinction between open-ended labour contracts and temporary and other non-standard labour contracts which involve much lower hiring and firing costs, especially for youth. Employment volatility is high in such labour markets, with the workers employed under non-standard contracts — among whom young workers are overrepresented — bearing the brunt of employment losses during recessions, while little adjustment takes place through wages in the more protected segment of the labour market. A similar segmentation exists in countries where a strongly protected group of workers in the formal sector coexists with a large informal economy.

24. Therefore, an initial step towards more and better work for youth is to address this high segmentation by, among other things, reducing such asymmetrical flexibility, moving towards a more equitable distribution of labour market risks and benefits and putting an end to policies that discriminate against hiring youth. High turnover induced by lack of security reduces the incentive for workers to acquire training. Where young workers enjoy job security and have access to income support, investments in skill formation are higher and working poverty declines. Thus, the establishment of higher labour standards and income security schemes can have a positive effect on productivity and help to reduce inequality. As long as young people remain trapped in insecure, low-end jobs, policies aimed at improving their employability will not improve their labour market situation.

25. Addressing labour market segmentation and ensuring that young workers enjoy income and job security are positive steps towards removing obstacles to the demand for employing youth, but these measures need to be complemented by broader demand-side policies to expand decent job opportunities for youth.

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[18] For a summary of the literature see, for instance, David R. Howel, Dean Baker, Andrew Glyn and John Schmitt, "Are protective labor market institutions at the root of unemployment? A critical review of the evidence", *Capitalism and Society*, vol. 2, issue 1, and Gerry Rodgers "Labour market flexibility and decent work", in *Towards Full Employment and Decent Work*, José Antonio Ocampo and Jomo K.S., eds. (London, Zed Books, 2007).

[19] Stephen Devereux, "Can minimum wages contribute to poverty reduction in poor countries?" *Journal of International Development*, vol. 17, issue 7 (October 2005).

26. The transition to a "green" economy and the provision of adequate public services, especially in developing countries, in areas such as health care, education and utilities, including power and water, are required to stimulate inclusive growth; they will also directly generate additional job opportunities for youth. In view of the high costs to society of the unemployment and underemployment of young people, Governments may also consider establishing public employment-guarantee programmes focused on youth. Studies have shown that a universal employment guarantee could be put into place in many countries for a total cost of 1 to 2 per cent of GDP.[20] Such programmes are therefore affordable, especially when compared with the cost of unemployment or underemployment. An employment-guarantee scheme would provide protection against economic risks and buy time for employment-friendly economic reforms to become firmly established. By drawing in young people who often never before had been part of the workforce, well-designed employment-guarantee programmes can potentially increase their "employability" and facilitate their entry into the private sector.

27. Addressing youth poverty also means dealing with the challenges facing the informal sector from the perspective of fostering long-term, competitive productive capacity and improving the income security and working conditions of informal workers by, among other things, expanding the coverage of social protection available to them. Employment strategies must be accompanied by policies to maintain a social protection floor if they are to reduce youth poverty. Other measures that would also go a long way towards reducing deficits in decent work and poverty among youth are enhancing the ability of small and medium-sized enterprises to generate decent work by improving their access to credit and technical assistance, investing in infrastructure and streamlining procedures for business formation and regulatory oversight to enable such enterprises to become part of the formal economy.

28. Ultimately, making the youth jobs crisis a policy priority involves boosting aggregate demand in general and youth-oriented special programmes in particular. Doing so requires a coherent policy framework, including through supportive macroeconomic policies oriented towards the creation of more and better jobs. In general, countries that have fared better through economic cycles, reducing the fluctuation of output, investment and employment, have been able to implement a consistent set of countercyclical fiscal and monetary policies, aimed at increasing spending during downturns, strengthening the regulation of capital flows and managing the volatility of exchange rates. Macroeconomic stabilization policies aimed at keeping inflation at a very low level and controlling fiscal deficits have increased volatility in the real economy and in the labour market. The liberalization of international capital flows has further increased such volatility, destabilizing real exchange rates as well as the pace of productive investment, capital formation and employment. Emphasis on balancing public budgets has often resulted in declines in public investment in infrastructure, technologies and human resources as well as in social spending, all of which are critical for inclusive and sustained growth.

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[20] See Steven Miller, "Achieving full, productive and freely chosen employment for young people", paper presented at the United Nations Expert Group Meeting on the Challenge of Building Employment for a Sustainable Recovery, Geneva, 23 and 24 June 2011. Available from http://social.un.org/index/ExpertGroupMeetingsPanelDiscussions/2011; and L. Randall Wray, "The employer of last resort programme: could it work for developing countries?" Economic and Labour Market Papers, International Labour Office, Geneva, 2007.

29. Assessing the likely employment impacts of macroeconomic policy choices requires setting measurable employment targets addressing both the quality and quantity of jobs available to young people. Engaging youth in social dialogue and establishing partnerships among Governments, employer organizations, trade unions and youth themselves would also be instrumental in determining the most appropriate action at the national and local levels. National action plans to foster youth employment can be useful, but such plans need to have strong political commitment and be based on broad participation.

V. Conclusion

30. With almost one in four young workers unemployed in developed countries and the majority of young people working in the informal economy in developing countries, many of them living in poverty, the world is experiencing a youth unemployment crisis. If this crisis is left unaddressed, the achievements made in reducing poverty during past decades will be jeopardized.

31. Youth employment strategies are failing both to produce the number of jobs needed and to improve the quality of work prospects. Although strategies to improve the employability of young people are necessary, they have proven insufficient to address deficits in decent work. Policies are also falling short of providing young workers with the protection and support which will enable them to fulfil their potential, overcome poverty and actively contribute to economic and social development. In order to address the youth unemployment crisis, Governments must do more to lower structural barriers to the proper insertion of youth into the labour market and encourage the maintenance of proper labour standards and wages in order to increase the income and job security of youth and reduce their vulnerability. Governments must also do more to find and motivate those young people who have given up hope of a productive future. The social, economic and political costs of a prolonged youth unemployment crisis are high. The current trend towards fiscal austerity defies the pressing need to address that crisis, which has been aggravated during the financial and economic crises. Instead, these events should be seen as affording an opportunity to address youth employment problems and increase job and income security for young workers.